Economics in Action • Aug. 1954

Cautious optimism seems to be the prevailing mood among the nation's economists, with some more cautious and some more optimistic:

Those urging caution point to the pile-up of unsold finished goods still in warehouses and on retail shelves. Dealer stocks of automobiles, for example, are about 40% higher than a year ago, and there is little chance of a sales pickup before September. That means probable production cutbacks until the '55 models appear on the market some time in October. And despite recent gains in retail sales and a slight softening in prices, retail stocks of durables (furniture, appliances, etc.) are about as high as they were a year ago when sales were even heavier. In fact, the only sizable cut seems to have occurred in raw materials, partly as a result of the Government's revamped stockpile program.

The optimists, on the other hand, insist that businessmen wouldn't keep such a high level of inventory on their shelves if they were not confident of a business pickup. They point out that while Personal Income has dipped about 2% since last October, income tax cuts have left spendable Personal Income virtually unchanged. The consumer is, however, spending a smaller part of his income on goods and services, and the reason, they believe, is that he is well stocked. By next fall he should start buying again. In fact, the recent spurt in consumer debt after a three-month decline, seems to indicate that such an uptrend may already be starting.

However, both groups agree that the downturn has already been halted and that we may expect an upturn either in the fourth quarter of this year or in the first quarter of the next.

This mood of cautious optimism is clearly reflected in the Administration's recent move on the credit front:

> The Federal Reserve surprised many financial experts when it recently decided to permit member banks to lower their reserve requirements—the amount they must keep on balance with the Fed against their deposits—by some $1.5 billion, which could set in motion a credit expansion of some $8 or $9 billion. This move came at a time when banks were already carrying about $500 million of excess reserves that could be used for loans and investment and when the nation's money supply (privately held deposits and currency held outside of banks) was greater than during last year's boom.
>
> Some economists interpreted this move as a reflection of official anxiety over our economic recovery. Injection of more money into the economy at this time, they believed, meant that the Administration thought an extra "shot" of cheap money was necessary to spur a business revival.

Actually, the Government is going to absorb some of this extra money this fall when it goes shopping for $10 billion to meet current obligations on the National Debt. There is usually a seasonal upswing in borrowing around September—which would have been thwarted if there were a lack of funds. Besides, if the expected upturn does not materialize, the Federal Reserve can always sop up the extra credit by selling Federal securities on the open market.

Meanwhile, there are other signs of inflation on the economic horizon:

(Cont'd on p. 47)

Challenge

The Magazine of Economic Affairs

Vol. 2 No. 11
August 1954

Published by
INSTITUTE OF ECONOMIC AFFAIRS
NEW YORK UNIVERSITY

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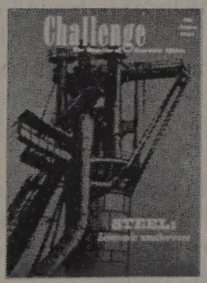

Cover by Dan Schwartz

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a personal note

UNTIL A FEW WEEKS AGO the most popular game in the United States was to look for bad signs on the economic horizon. Having looked for trouble, many people quickly found it. The discouraging signs were readily compounded by many a man on the street into a genuine threat of another depression.

The shaken nerves have not been entirely steadied as yet, although we are beginning to display a remarkable outward show of calm. There is cause for concern over the three and one-half million still unemployed and the twelve percent decline in production. Yet, total business activity is just a shade off the pace of our peak year. The total expendable income compares favorably with last year's high, as does the total consumer expenditure. But despite these signs of reasonable stability, there has developed the general opinion that things are not as good this year as they were last. Exactly why is a matter of great debate among economists and of concern to the public. As usual, the debate does not alleviate the concern.

So far as sizable numbers of our organized workers are concerned, the worry over the economic future of the country is founded on some disappointing personal experiences. The durable goods industries and the heavy industries have been the hardest hit by this period of readjustment. Men have been laid off or are working part time. This hurts. It is little consolation to these men to read the "good" figures on the over-all economy. Nor are words of encouragement from Government and business officials wholly satisfactory to them. They would rather have a contractual agreement wherein there is a guarantee to keep them on the job the year-round. A guaranteed annual wage is a growing notion among industrial workers. Since many of those who have been hardest hit by the decline in production are from this group, the notion has grown into a conviction among union people.

IRONICALLY, organized labor will not be in a position to press its fight for GAW at this time—precisely when such a guarantee would appear to be most desirable. The cry for a guaranteed annual wage will be more audible when production is once again in full swing and pay

envelopes are fat. The fear of another possible decline will then bring the issue to a climax.

I believe a society predicated on guarantees ceases to be free. On the other hand, people who are content to say that a guaranteed annual wage is bad because it leads to slavery, it stifles initiative, it destroys our free economy, etc., etc., without qualification or explanation, are doing themselves and their fellow citizens a disservice. Words like these have little meaning to men who do not want to see any of these dire predictions, but who *do* want stability in their incomes. There is nothing wrong with this desire. The attainment of such an objective is clearly in the interest of everyone, whether he be a wage earner or a self-employed person, a white collar worker or blue, from labor or from management. There are features about the GAW device which are not desirable. But the objective of wage stability has economic value and humanitarian appeal. On these two counts alone the notion cannot be dismissed without inviting trouble.

The device ought not to be confused with its purpose. In truth, a free society cannot dispense guarantees without bringing down the moral fibre of its people one notch closer to that of subjects who await a potentate's largess. But a free society can always have as its objective the attainment of economic stability. The point is to go about it in the right way.

THE EXAMPLE of what has happened to our minimum wage laws is convincing. Federal legislation has revised minimum wage requirements upwards—but almost as an afterthought. The revision came *after* prevailing economic conditions had made the first minimum wage laws obsolete—*after* the majority of wage earners were making far more than the stipulated minimum. This is the way a free society should work. Heaven help us if we start guaranteeing that which is not yet economically possible. Then we shall cease to be free.

To men of good will everywhere, the objectives of GAW seem laudable. I would, however, rather put my trust in encouraging the conditions which improve the economy than in drawing up static devices. I look forward to the day when the realities of an expanding economy will bring the objective of stability within the grasp of every wage earner in the country. If then somebody wants to put the seal of guarantee on what has been accomplished, that will be just fine. It is a case of keeping our eyes on the doughnut and not upon the hole.—H.B.

The United States and Great Britain have lost economic touch with each other, aggravating the discord in their political alliance

The Dollar and the Pound Must Coexist

Anthropologists define their findings in terms of culture wherein there is a blending of the way men govern themselves and the way they go about acquiring food and shelter. Most historians, on the other hand, when digging into the desperations and deeds of the more recent past, have traditionally attempted to distinguish clearly between politics and economics. Journalists immersed in current affairs draw the line still more sharply.

It is a matter of perspective and detail. But whatever the approach of the scholar or reporter, there is an undeniable, working cross-reference between government and economics in every national unit. And while it cannot be said that economic objectives always determine the course of political policy, or vice versa, it is often true that when political outlooks and aspirations of any two countries coincide at important points, it is because an economic understanding of each other's needs usually exists. When this understanding falters, the chances for a split in their political orientations are enhanced—particularly in the international sphere.

The latterday rift between the United States and Great Britain is due, in part, to such a loss of mutual understanding. Though they continue in some measure to be dependent upon each other as allies in the broadest sense, the world political outlooks and practices of the United States and Britain have been veering apart. Almost imperceptible at first, but now appearing more clearly, there is a loss of touch with each other's economic needs and practices. This has aggravated the cleavage in their political alliance.

The differences between the two countries weaken them in the face of increasing pressures from the Communist world. Undoubtedly the political position of the East is improved. It goes without saying that the West must carry an absolute economic liability because of this loss of contact between kindred spirits. The split detracts materially and psychologi-

cally from the support both countries must give one another in the economic race against the Communists. For should the world escape a Big War, it is in the statistics of production, distribution and living standards that the outcome of the cold war may be finally determined.

There is irony as well as danger in the rift. The United States and Great Britain share common traditions and continue to uphold the same essential principles of individual dignity and, at least from the point of view of appreciation, of individual enterprise. Their interests remain linked. And there is no inevitability in the increasing influence of the economic dissimilarities between them. These dissimilarities can be minimized, controlled and even exploited. The first step is to learn what they are.

Of crucial importance is an understanding of what world trade means to each country. The United States began its years of maturity with a sense of self-sufficiency, drawing upon her own vast land mass for resources and producing and consuming most of her output. The traditional British attitude toward trade was well expressed 150 years ago by the poet Thomas Campbell:

"Her march is o'er the mountain waves,
Her home is on the deep."

For centuries the Anglo-Saxon islanders have been buying and selling across the seas. Britain has never looked upon foreign trade as a convenient, but not all-important source of raw materials, nor as an outlet for merely surplus manufactured goods. Without foreign trade Britain would be reduced to an agrarian economy, supporting only a small fraction of her present population of 50,000,000.

Foreign trade directly contributes to 40 percent of Britain's gross national product. In the United States, this figure is just 7 percent.

Although in recent years Britain has reduced her reliance on overseas food supplies, she must still import about 50 percent of the necessities of life, as well as almost all the raw materials fo her industries except coal.

EIGHTY percent of Britain's imports are made up of food, raw materials and fuel, principally oil. Eighty percent of her exports are manufactured goods. Without this trade Britain could not live. Thus she has never been able to afford cutting off her economic nose to spite her political face. That is why she trades with Soviet Russia and Red China, and is more concerned with the net gain to herself (and through her to her allies) than with the obvious

benefits such trade in nonstrategic goods bestows upon the Communist bloc.

Britain's dependence on foreign trade has been increased since World War II. In 1938 Britain's income from investments abroad and from shipping and financial services paid for 30 percent of her imports. By 1953 such "net invisible earnings" had been reduced to the point where they could only pay for 11 percent of British imports. Britain also once carried on a great entrepôt trade by importing raw materials and shipping them out again to other countries. Since the volume of this exchange is now much smaller, income from it has diminished. Exports, therefore, must now pay for about 90 percent of British imports as compared with just over 60 percent in 1938. It virtually is a matter of life and death for Britain to increase her volume of exports. Her herculean efforts in this connection are well known. By last year, a 50 percent increase in the volume of exports above that of 1938 was achieved.

Offsetting this and other signs of progress by Britain have been unfavorable developments in the world trade situation. Neither Britain nor the United States, nor all the other nations generally aligned with them, benefit in the long run if their patterns of trade form economic cliques within the Grand Alliance. But this is what has been happening.

Despite all the talk about developing multilateral trade, there has actually been a hardening of the trade arteries. The non-Communist nations of the world have been dividing into two trading blocs. The first, the dollar area, centers around the Americas. The other, the sterling area, is comprised mainly of Britain and the rest of the Commonwealth with the exception of Canada, which is a dollar country.

Prior to World War II, the United States obtained 38 percent of her imports from North and South America. By 1953 this figure had soared to 56 percent, with Canada emerging as a new major supplier—and buyer. The nonmilitary exports from the United States to North and South America amounted to 34 percent in 1938. In 1953 exports to the dollar area had risen to 52 percent of the total.

In Britain's case, just 31 percent of her imports during the prewar era came from the sterling countries, mainly Australia, India, South Africa and New Zealand. In 1953 this figure had gone up to 45 percent. Britain's dollar shortage cut down her imports from the United States and Canada to a meager 17 percent in 1953. Thus the separation of spheres is all but completed.

Lately there has been a tendency to do little about this restriction of trade within areas, especially since Britain and the sterling bloc have overcome many of their postwar economic emergencies. Why change, it may be asked, when the going is good?

The going is not really good, in fact. The pound sterling at this writing is still not directly convertible into dollars, despite Britain's greatly improved economic position and the growth of dollar reserves held by members of the sterling bloc. Only limited convertibility is expected to be accomplished soon. It would be folly to allow the present pattern of world trade to harden.

THE MORE Britain and the United States develop individual economic ties within separate spheres, the greater the possibility of friction in their political relationship. The greater this friction becomes, the more chance there is that the Communists will succeed in their aim of dividing today and conquering tomorrow.

A hopeful sign is to be seen in the changes taking place in the pattern of American world trade. Chances for greater understanding and cooperation between Great Britain and the United States are thus enhanced. The proportion of exports from the U. S. made up of finished goods has jumped from 53 to 70 percent since 1938. About 4,000,000 Americans are employed in producing and transporting the machinery and agricultural products for overseas consumption. The United States, too, is learning the importance of world trade to its economy.

FAR FROM breaking down the economic relations between the United States and Britain, there is ample scope for expanding trade between the dollar and the sterling blocs. Britain and the Commonwealth can help supply America's strategic needs. They provide about 94 percent of the nickel, 73 percent of the gold, 49 percent of the natural rubber, 53 percent of the chrome, 93 percent of the asbestos and 64 percent of the manganese produced in the non-Communist world. On the other hand, both Britain and the Commonwealth need American food, machinery and basic metals.

In a recent message to Congress, President Eisenhower had this to say: "Beyond our economic interest, the solidarity of the free world and the capacity of the free world to deal with those who would destroy it are threatened by the continued imbalance in trade relationships. . . ."

The primary consideration must be to develop a greater measure of interdependence between the

United States and Britain. This does not mean a dependence characterized by one country bailing the other out of its economic troubles. Rather, it would mean a natural process of mutual economic cooperation which could enhance their political and military positions against the Communist world. This type of mutual understanding and growth would have its impact on the underdeveloped areas as well.

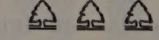
One of the first steps that might be taken is breaking down trade barriers. Tariffs are a case in point. The U. S. import duty on embroidered wool gloves, for example, is 90 percent. There are hundreds of similar items, on both sides, which contribute little to a greater exchange of goods.

CUSTOMS procedures present another difficulty, and here the United States has come in for a great deal of criticism. One exporter to the United States had to re-label his plum puddings (traditionally made of raisins) because U. S. Customs officials said the puddings contained no plums and were, therefore, mislabeled.

Another barrier is to be found in the high production costs of some British goods, which get nowhere on this country's highly competitive market. The British could increase their efficiency if they could fill their need for more electric power and mechanical handling equipment, among other things.

America's interest in seeing that British pounds can be converted to dollars is manifold. Every kind of American encouragement to this end should be pursued. But convertibility can be more readily achieved by the purchase of British goods than by grants-in-aid for the purpose of bolstering Britain's dollar reserves.

The United States and Great Britain may be compared to two brothers, each of whom is heir to the same wealth, ability, skill and prospects—all of which, through a joint effort, could be greatly expanded. It is through a merging of positive economic outlooks and action that the United States and Britain can maintain and augment a necessary military and political alliance. This appears to be a basic necessity if these countries are to succeed as partners in leading the world out of poverty and totalitarian regimentation. ■



STEEL: The Big Weathervane

by Louis F. Licht, Jr.

The steel industry—massive and powerful—yet so sensitive that it reacts to the cumulative demand of almost every other industry and in its own way indicates the general economic trend

WHEN a man's razor becomes dull, he either puts a fresh edge on it with a honing gadget; or he buys a new one; or he grows a beard. When his wife's old egg-beater becomes unserviceable, she either gets another; or she is graduated to an electric mixer. Whatever they decide affects the use of steel, perhaps the most influential manufactured material.

The thousands of routine decisions like these, along with the ones being made all the time on armor plate, plumbing fixtures, girders for bridges, and so on and on, converge upon the steel-making industry as demand. This demand makes itself felt in waves—with little regularity in size, type or timing.

The steel industry is highly sensitive to demand in all its variations. Like an army it deploys billions of dollars worth of equipment and tremendous manpower. Divided into scores of companies, each of which must count its costs, the industry is compelled to make every adjustment in output with the greatest possible alertness.

Thus, for all its physical bulk, steel is one of the most delicately poised and quickly responsive industries in our economy. Because of the nature of the principal things into which steel goes, and because of cross-currents of demand created by changing business conditions, the output of steel over short periods can swing much more widely than the gen-

Louis F. Licht, Jr., an expert on developments in steel production, reports trends from daily studies of this most vital industry.

eral trend of industrial activity. Yet nine times out of ten it acts as a giant national weathervane, signaling by its massive shifts the changes in economic winds.

LATEST turns of the steel vane give some indications of a general pickup in economic activity. They also reveal reactions within the industry itself that have meaning for all its customers—for everybody, that is.

Operating at about 25 percent below last year's rate of output, the steel industry has been staying under wraps in recent months. But lest the public get the impression that the industry itself is not pulling its weight, spokesmen hasten to explain that output continues on a gigantic scale—on a par with that of World War II.

It is true, nevertheless, that steel-making capacity has grown sharply since World War II—from 88,000,000 to 120,000,000 tons a year. Most of the increase began in 1950, the year the shooting started in Korea. Realizing the need to be ready for all-out war production at any time for years to come, the Government spurred the construction of extra facilities to be held in reserve.

With capacity higher, says the American Iron and Steel Institute, the amount of steel needed currently can be turned out at a lower rate of operation than in previous years. Very likely the reserve capacity will continue to exceed demand for some time.

AT THIS writing the industry is working at slightly more than 70 percent of capacity. But this represents a gain of several million tons over monthly output earlier in the year. These additional tons, of course, reflect a rise in orders, which stems from a number of recent developments.

With the international situation becoming, if possible, more uncertain than ever, many buyers are placing big orders to hedge against the shortage they fear would result if the nation were to enter into a hot war. Many of these buyers are manufacturers who would not be able to obtain priority rights.

The feeling that we might have to fight again undoubtedly is helping to stoke a general economic revival. And it may be exerting pressure specifically in such ways as the heavy output of pipe for oil and gas companies.

But the over-all pickup being revealed in steel probably should be attributed less to defense than to nondefense demand. Under today's conditions, consumer products (and the machines that make them) take up at least four-fifths of the output of the metal. Manufacturers are now ordering new steel at an increasing rate,

building up their stocks. They had let stocks sink after buying too heavily last fall and winter.

Among other nondefense factors that led to a rise in the demand for steel was the threat of an industry-wide strike. Manufacturers tried to avoid the possibility of steel shortages from interrupted production and a boost in prices that contract bargaining would bring about.

A longer-rising influence upon the industry comes from an increase in the direct uses of steel. These direct uses, for housing, cars, freezers, cutlery and so on, at present take up about one-third of all steel turned out. And they are gaining on the indirect uses, those for machinery and facilities which produce goods and services. Both direct and indirect uses are climbing in tonnage per capita.

BEHIND this promise of long-range increase and the benefits that go with it, however, there is the nature of the demand for the product. Coming in irregular waves as it does, the demand for steel strains the stability of the industry. The way this problem is being dealt with will have much to do with the health of this most essential of basic industries and its ability to fulfill its possibilities for further rises in our standard of living.

When business activity is increasing, the businessman finds it profitable to have large stocks on hand. Goods run through his factory or shop rapidly and often increase in price between the time of receipt and delivery, adding to profits. Naturally, he tries to keep his stock in some relationship to present or expected sales.

As an example, if a retailer who normally keeps a month's supply of auto jacks on his shelves finds that his sales have increased from 100 a month to 110, he will try to buy 120, enough to meet current demand, plus the number he needs to build his stock to its previous ratio to sales.

The wholesaler, finding demand at 120 units, will through a similar process increase his own demand to 140 jacks. The manufacturer, finding demand to be at 140, will increase his demand for raw materials—steel—sufficiently to turn out 180 jacks.

For a businessman the only thing worse than being left with insufficient goods in a period of rising demand and prices is to be overstocked with merchandise in a period of falling demand and prices. The first phase has a habit of shifting to the second, often without much warning. In either case, when business piles up inventory or unloads it, the repercussions gain in force as they bump back to the steel industry. This was demonstrated with final-

ity when steel production dropped more than 25 percent within two or three months early this year, while the index of physical output dropped only 12 percent.

As the "heavy" of heavy industries, the steel industry bears a tremendous burden of overhead, with costs far in excess of what they used to be. This means that it requires a high and steady level of operations to stay above the point at which it begins to make profits.

Yet, faced with irregularity of demand, plus the need to be ready for any national emergency, the industry must have the plant capacity to be able to produce at a rate well beyond its average rate of operations. How is it to operate at a steady, profitable rate in normal times and still carry extra capacity to be ready to hike output in an emergency?

The industry has reacted to this problem with energy and ingenuity. It now puts intense emphasis on efficiency through technological improvement, combining dependability with flexibility, and holding operating costs to a minimum. New blast furnaces turning out 56,000 tons of iron a month require no more men to operate them than older models turning out 22,000 tons.

Technological improvements account for the fact that though in comparison with prewar levels, wages are up 140 percent, coal 100 percent and ore 115 percent, the price of finished steel has risen by only 80 percent. At the same time, new efficiency gives the industry as a whole a present break-even point at slightly above 50 percent of capacity.

With current output running well above the profit-making point, the steel industry appears in sound shape financially for the time being. And the increase of direct uses for steel bodes well for the future of the industry. Besides adding to production, it helps to stabilize it. This is because the articles which go into direct use reach a wider market and require replacement at more frequent intervals.

In its basic problems and needs, the steel industry reflects to a rather extreme degree those of our giant mechanized industries as a whole. But it also reflects their total potentialities, and these potentialities themselves are bound up with the future of steel. Depending on the manner in which it widens uses, improves technical efficiency, raises capital and secures resources of raw materials, the steel industry will act not only as an indicator but as a leading force along the way of America's economic advancement. ■

The techniques of material progress are America's contributions—but there are as many social concepts involved in our process as purely economic or technological

The American Role In World Culture

by W. L. McGrath

We in the United States are very much aware of the fact that our culture has been transplanted from the many different countries in which the forebears of our population originated. We are, to a large extent, merely the inheritors of the ideas and traditions of our ancestors, who came from the four corners of the world to populate the United States.

But we have built up a civilization, a culture of our own, you might say, which has largely grown out of the benefits of technological development—a culture which has to do with mechanization, quantity production and development of mass markets. All this has resulted in making available comforts and conveniences to ever larger numbers of our people.

While you might consider this development to be essentially materialistic, it *has* improved the well-being of our people in countless non-materialistic respects. As a consequence of their higher and higher standard of living, our people have more and more time and facilities available to them to engage in educational, recreational and cultural pursuits, which in turn contribute to greater and greater improvement in their physical and spiritual well-being.

I think, therefore, that we might define the objective of technological development as that of assuring better things to more people at lower cost. And this brings me back to the subject of the contribution which I think the United States, on the basis of its experience, may make on behalf of that objective.

I want to explain what we in the United States call the tech-

Adapted from an address by Mr. McGrath before the 37th Annual Conference of the International Labor Organization in Geneva, Switzerland. Mr. McGrath, a United States Employer Delegate to the Conference, is president of the Williamson Heater Company of Cincinnati, Ohio.

nique of "creating consumer demand" or, to use simpler words, *getting more people to want to buy the things we make.*

There are, in the main, two groups of products. The first group consists of the things that people *must* have in order to live. Among these are food, clothing and shelter. The second group consists of things that people *want*, over and above the necessities of existence.

IN THE United States the major share of our business and our employment is occupied with making things that people want, rather than what they actually have to have. We have learned that there is no limit to human desires, and that upon these desires can be built a limitless volume of production, jobs and payrolls.

This did not happen overnight. Originally the United States was an underdeveloped country. Less than one hundred years ago, a large share of our people still lived in one-room log cabins. What took place in our country since then can take place now in nations whose economies are today in transition from subsistence farming to industrial production.

What happened was that as we filled our basic needs and began to make the things the people wanted above their needs, we began to realize the benefits of operating under the free competitive system.

Under this system, the company that gave the best values to the public kept its business. The company that failed to give good values lost its business. There are no artificial restrictions which protect the high-cost producer. To survive, he must lower his cost and improve his product, or, if his product becomes obsolete, he must find a new one. Progress, in business, is a result of giving more people more and better things. Competing companies strive to get business away from each other by offering a better product at a lower price.

BUT PRICE is only part of the story. How about purchasing power? We began to realize that to gain broader markets it was not enough just to offer better values. We would also have to pay higher wages, so that our people could afford to buy the things they helped to make.

Thus it is inherent in our system that greater productivity in selling things *must* go hand-in-hand with greater productivity in making things. Further, as ownership shares the fruits of higher productivity among its customers and its employees (as well as with itself), the purchasing power of all three economic groups is im-

proved, and the standard of living of the total population rises in the process.

In the old days, a manufacturer making a certain product built it the way he thought it ought to be built. He found out what it cost to make, added enough to his cost to represent a substantial profit and thereby arrived at the price. And then he set out to sell it. He sold whatever number would sell at that price.

But how about the customers? How many were willing and able to buy at that price? And was it the kind of product they would want to buy?

Under the spur of competition, manufacturers in the United States awakened to the fact that it is the customer, not the manufacturer, who determines the market—and that the place to start is with the customer.

LET'S assume, for example, that a company is going to bring out a new model of a motorized bicycle. As its first step, the company makes a survey to determine what sort of a motorized bicycle people prefer, and how much they are willing to pay for it. Out of this will be developed an estimate that if the company makes a motorized bicycle of a certain general design, to sell within a certain price range, the annual sales volume will probably reach a certain figure. But just what is the right design and the right price?

Here is where the arithmetic of volume comes into the picture. Should the company figure on a large profit margin per sale, thereby raising the price and reducing sales volume? Or should it figure on a low profit margin, thereby reducing the price and increasing the sales volume?

What we have learned in the United States is that highly satisfactory profits can be earned on low profit margins. You don't make money, in a competitive economy, by keeping the price up and making a big margin of profit per unit of sale. You make more money by cutting your price to where you have a small margin of profit, but increasing your volume of sales. In short, the better you do for the customer, the better you do for yourself.

Now, let's go back to the men who are managing that motorized bicycle company.

As a result of their market survey, they determine the price at which they are going to sell their product, and design a product on which they can make a modest profit, provided they sell a large enough volume. Volume is imperative because costs are based upon quantity production.

HOW BIG a volume must they sell, in a year, to make what they

consider a fair profit? Let's say the answer is 100,000 units. This figure then becomes their sales quota for the year. They *must* sell 100,000 units. How do they go about it?

They do it by advertising, by merchandising, by selling. The job is that of making people *want* that motorized bicycle. The company has gotten the price down to where people are *able* to buy. This is what I mean by creating a market out of human desires—a market that means jobs and payrolls.

Every day somebody invents something new or better that people want. Can it be sold? The answer is probably "yes," if you can get the price down. Well, you *can* get the price down, if you create enough demand so that you can use the techniques of volume production.

Take television as an example. When television first came out in the United States, a set cost over $300. But merchandising and advertising went to work on the public imagination until hundreds of thousands of people wanted television. That made possible mass production on a competitive basis. The result is that today you can get a better television set for about $175. When television sets cost $300 or more, only a small number of sets were made per year, and the industry employed a mere handful of people. Today the industry manufactures about 7,000,000 sets a year and employs nearly 600,000 people.

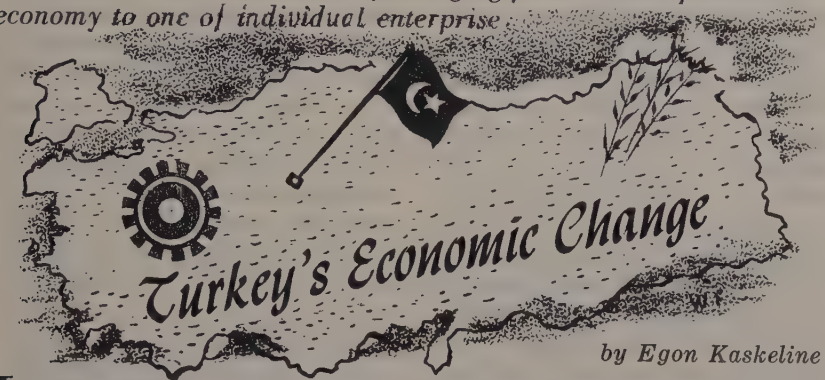
That is an illustration of how *persuading people to want something*—something, mind you, that they didn't really *have* to have—has added to productivity and employment, as well as to the standard of living.

You may say that the United States has television because it is richer. I say that the United States is richer because it developed and sold television. It created a great industry out of an invention and human desires.

Once you can establish a market by making people want something you can furnish at a price they can pay, you have greater productivity, higher payrolls and a rising standard of living.

This method requires, however, three conditions for its successful operation: (1) a competitive economy; (2) a sincere belief in the desirability of giving the consumer the most you can for his money; and (3) a conviction that employees are your best customers. None of these objectives can be achieved by legislation. Only when free men of labor and management aggressively support the principles of a free economy can we move forward to a bright future for everyone. ■

Having already evolved from a dictatorship to a democracy, Turkey is now in the process of changing from a state-sponsored economy to one of individual enterprise.



by Egon Kaskeline

IT MIGHT SEEM unlikely these days that a delegation from another country could sit down with officials in Washington and after four days of friendly discussion walk off with promises of major financial aid—without an outcry from at least a few members of Congress. This happened a few weeks ago, the welcome visitor being Premier Adnan Menderes of Turkey.

In response to his call, the Administration proposed a three-year program of economic assistance adding up to $300,000,000 in grants and loans. That this was done without opposition testifies to the respect the visitors' homeland has won, almost overnight, as one of the staunchest partners in defense and progress the United States has anywhere in the world today.

Turkey, once known as "The Sick Man of Europe," has become "The Strong Man of the Middle East."

Tyrant-ridden for centuries, the country has been transformed into an outpost of democracy. Once sluggish and set in its old ways, Turkey has become the leading exponent of modern business and technology in its part of the world. In speed, the economic and social changes which have taken place in Turkey far exceed what happened in Japan during the nineteenth century.

Kemal Ataturk, founding father of modern Turkey, was well aware of the need to invest heavily to finance industrial ventures that would help to overhaul his nation's still medieval economy. With

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private capital short at home and a justifiable fear of foreign money, he pursued a system of state socialism, or *etatism*. In this he combined his own brand of political dictatorship with economic stewardship, raising capital by issuing bonds based on the credit of his government.

Under these conditions, Turkey maintained a reasonable rate of progress. Ataturk kept alive the peoples' yearning to express themselves freely in politics, and nurtured simultaneously the hope of putting private capital to work when realistically possible.

TWO YEARS after the end of World War II, (with the great Ataturk gone from the scene, but his Republican Peoples Party still in power), the United States took a step that materially affected the course of Turkish events. The cold war was already underway, and it had been decided that encroachment by the Soviet Union in the direction of the eastern Mediterranean should be discouraged; and the two countries standing in the way, Turkey and Greece, should be bolstered. Both wanted to help for their own sakes, and had shown that as nations fighting the inroads of communism, they warranted assistance.

Under the Truman Doctrine, Turkey was granted $200,000,000 in economic and military aid in 1947. About two and a half years later, the first technical advisers under Point Four were sent. More than $1,250,000,000 in military equipment, agricultural tools, raw materials and industrial machinery have thus far been shipped to Turkey. American experts on the spot agree that though much remains to be done, the results justify the outlay.

WITH the election of the Democratic Party in 1950, (which the previously entrenched Republican Peoples Party accepted without resistance) the Turkish Government's domestic policies took a sharp turn. It led to greater encouragement of not only political but economic democracy, as well.

The new president, Celal Bayar, was able to have key laws affecting business, particularly with respect to foreign investment, revised. These revisions proved to be popular, for in the new national elections which took place in May of this year, he and his party won another sweeping victory.

A few months earlier, the Turkish president had visited the United States and had much to say on the effects of the close relationship between his country and ours. Speaking before the American-Turkish Society, President Bayar said: "Believing that the recovery of a country, even

one that was economically underdeveloped, would be rendered possible first and foremost by giving private enterprise its full worth, we did not waver for a moment in turning our economy in that direction.

"It is because American aid, which we gratefully received through the Marshall Plan, was employed in that spirit and because we united it with our own efforts of national and private enterprise that we have, today, succeeded in obtaining results."

SINCE 80 percent of her people live on the land, Turkey is first of all an agricultural country. The recent progress shows up primarily in farm production. The most striking instance of this is to be found in the fact that Turkey has changed from an importer of wheat to the world's fourth largest exporter—the granary of the Middle East!

With technical assistance from Americans, a new, total approach to the nation's farm work has been taken, incorporating power machinery wherever possible. In this country where there were only 2,000 tractors in 1948, 35,000 are chugging today.

Through a system of "village institutes," the peasants have been learning to adapt up-to-date methods to their special needs. Using selected seeds and spreading fertilizer to best advantage, they are tilling larger stretches of land than ever before. Since the drive began, they have increased total acreage by 50 percent.

Turkey enjoys one advantage above all other nations of the Islamic world respecting agricultural output. It is free from the system of absentee ownership and peonage of other Middle Eastern countries, where wealthy landlords jealously guard against any measures which would threaten their personal privileges. Turkish peasants for the most part own their land. Thus they have a personal stake in increasing their productivity, although financial aid still comes from the Government.

The amount of credit being extended to the farmers has quintupled in the last few years. Reflecting the increase in purchasing power, solid brick houses have replaced primitive shacks in village after village. Moreover, running water, electricity and new roads have given many communities a new basis of daily life and contact with the rest of their country and the world.

IN BOOSTING personal initiative as the key to progress, the Turkish Government has found a fairly simple path in agriculture, working with farmers who take a direct personal interest in the returns. In the drive to develop

industry, the problems are more varied and tangled.

As things are today, Turkey's plants and mines make up the most important industrial complex of the Middle East. By Western standards, however, they are still in their infancy. There are several reasons why Turkey's industrial expansion will take some time to match the rate of agricultural growth.

Turkey's "new deal" in private enterprise still exists on paper in many respects. When the Democratic government tried to transfer important state industries to private ownership, it found that there still was not enough domestic capital available. Nor were there enough managers and technical experts outside of government to run these business ventures. Part of this situation, however, may change in the near future. With private savings having doubled from 1950 to 1953, capital is accumulating rapidly. An economic middle class is emerging.

Etatist mentality is still widespread, inclining many Turks to look to their Government for financial support rather than venture into tricky waters of self-reliance in business. There is a need to further strengthen business and industrial tradition among the people. A new tradition for the new Turks needs a few more years to reach maturity.

The Turkish State continues to operate about half of Turkey's industry. But there has been important progress toward relaxing state controls. Moreover, the increase in output in the private sector of industry has been greater than in the state's sector. According to recent estimates, the share of national enterprises in Turkey's total industrial output has begun to diminish.

This is partly due to the action of Turkey's new industrial and business bank, founded in 1950. The new Industrial Development Bank, established by the Democratic government with capital from private sources, from the World Bank in Washington and Marshall Plan funds, is now financing an increasing number of privately-owned commercial and industrial enterprises. It has extended long-term credits to new fabricators of building materials, to food processing plants and to numerous small textile enterprises.

The Turkish Government is wooing foreign capitalists to induce them to sink funds into the development of the country's rich but untapped resources.

The newly enacted Petroleum Law gives foreign firms the right to prospect for and exploit any oil they may find. Whether this will lead to large-scale output immediately is doubtful, however. Oil has recently become plentiful on

the world market, and Iran may soon resume full production to add to the plethora.

Another newly enacted law aims at encouraging foreign investments in Turkish industries. It puts no limits on profits to be transferred abroad, and even allows foreigners to export their profits as well as their capital, should they decide to liquidate.

As a result of these attractive conditions, several American firms have already set up branch offices. Some plan to start production in Turkish plants.

To date, however, American private investment in Turkey does not amount to much; it is just about $30,000,000. No foreign capital has yet poured in heavily. One reason for this is that would-be investors look askance at some of the most recent economic developments in the country.

TURKEY is feeling growing pains. Her leaders are struggling with serious, temporary difficulties.

While lush harvests have filled the pockets of many hard-working peasants, the same peasants, on the other hand, have helped empty the public treasury. For while the Government was paying subsidies to farmers to stimulate production, the world market for grains collapsed. Turkish wheat sold at a loss or had to be disposed of through bartering.

With the Government continuing payments to farmers as well as spending deeply for military and industrial purposes, inflation has become rampant. But the Turkish administration thus far refuses to cut subsidies or to raise the bargain rate of 3 percent interest on its loans to business. It also rejects suggestions of scaling down its own huge road building, hydro-electric and irrigation projects. The leaders apparently feel that to reduce these projects would knock out the very basis of continued progress during the gradual shift from etatism to private enterprise.

As a result of all this, Turkey's trade gap is widening. With domestic prices rising while the importation of raw materials, machinery and consumer goods continues on a high level, the country has become a big international debtor.

But despite the present setback in business relations with other countries, there is much more reason for cheer than gloom over Turkey's future. This country is one of the world's best bets for economic progress.

If Turkey continues her present pace of modernization, she will become not only the most prosperous nation in the Middle East but also an example to every other underdeveloped country in the world. ■

A leading economist takes a look at the nature of America's economic progress during the last eighty years—and makes some observations on where we are heading

THE ECONOMY AT LONG RANGE

WHEN OLD SOLDIERS are ordered overseas, they comfort themselves with the thought that, while they don't know where they are going, at least "they are on the way."

An economist trying to peer into the future often feels the same way, although he may be more confident about the general direction in which he is headed. There is no foolproof method of economic prophecy. We can only guess where we are going on the basis of where we have been. But the more we know about where we have been, the more accurate that guess about the future is likely to be.

For the past thirty-four years, the National Bureau of Economic Research has been studying and reporting economic change from every possible angle. Its studies of trends cover a period of eighty years and are generally accepted as the most reliable data we have on American economic growth.

Just how far we have come during the past eighty years is brought out in the Bureau's latest Annual Report, in which Dr. Solomon Fabricant attempts to summarize the findings of hundreds of separate studies. This summary is in the form of an essay entitled "Economic Progress and Economic Change."

Calmly and undramatically Dr. Fabricant relates a story of economic growth which, as he puts it, has "little precedent or parallel in any other economic age or nation." During the last eighty years our per capita purchasing power, the most reliable index of real wealth, has multiplied more than fourfold — in spite of a more than fourfold increase in our population. And, Dr. Fabricant emphasizes, there is no convincing evidence that this record-breaking pace cannot be sustained in the future.

WHAT does this growth tell us about the shape of things to come? Let us take an example. The average yearly income among American families was about $5,000 in 1953. If our

economy should continue to expand in the next eighty years at the same pace it has in the past (and Dr. Fabricant sees no reason why it should not), our grandchildren will enjoy family incomes — allowing for changes in the size of families—of about $25,000 in terms of 1953 purchasing power. Or, to put it another way, the average family will have reached a level currently enjoyed by only the top one percent of the nation's families—if we keep on producing, that is.

To put our past accomplishments in their proper perspective, we might well ask: How did this remarkable increase in real wealth come about? There is an old saying that you only get out of something what you put into it. Economic life is no exception. As Dr. Fabricant phrases it, "a country's output always depends on what its people put into production"—the amount of labor and capital expended on work. It is hardly surprising, therefore, to learn that the amount of capital expended per person has grown at an average annual rate of 2 percent—or at a slightly faster rate than per capita income. What is significant, however, is that labor input per capita, or the number of work hours per person, has actually been falling for the last forty years—although, as we shall see, the *quality* of labor's input has improved tremendously.

TAKING both capital and labor together, we find that our total input per capita has increased by a little less than a fifth during the last eighty years. At the same time, our output, or the return in goods for each "dose" of labor and capital injected into the economy, has multiplied almost fourfold. From a given quantity of labor and capital, we have learned to produce four times as many goods as our forefathers did eighty years ago.

The reason for this tremendous increase in output relative to input has been our vastly improved efficiency, which we might define as the increased productive effectiveness of labor and capital. This efficiency, according to Dr. Fabricant, has been "the major source of our economic advance," and on it our future prosperity will depend to a very large extent. So far, the increase in national efficiency has been remarkably steady (productivity studies conducted by the Bureau indicate that output per man-hour worked rose even during the depression years of the 30s). But, and it is an important but, we must do even better in the years to come if we are going to maintain a rising standard of living for our growing population.

Now, these figures tell us a good deal about our economic progress. But they tell us very little about the all-important question of who shares in this economic progress.

For an increase in a nation's wealth does not necessarily mean a change in the distribution of that wealth. The Soviet Union is a good example of a nation where, in spite of a more than fivefold increase in industrial production during the last twenty-six years, the purchasing power of Russian wage and salary workers has declined 20 percent. Labor not only did not benefit from Russia's tremendous productive progress, but also found that its actual share in the larger economic pie was smaller.

Perhaps the most striking fact about "capitalist" America's economic progress during the last eighty years is that the rate of return on work has sharply increased while the rate of return on capital has declined. For, while the amount of capital investment per unit of output has increased, the number of man-hours needed to produce this unit of output has declined. The greater quantity of capital in relation to labor has, thus, by the simple process of supply and demand, tended to lower capital's rate of return in relation to labor's. In other words, it takes relatively *more* capital and relatively *less* labor to receive the same real income from each unit of output.

This development is particularly striking in the U. S. because our expanding productivity has enabled capital to increase its absolute earnings on a smaller rate of per unit return. This has not always been the case in Western Europe, where a smaller rate of return often went hand in hand with declining productivity, until the government, which alone could "afford" to keep on losing, stepped in. The extra taxes needed to run nationalized businesses would, more often than not, be imposed on capital earnings such as "excess" profits, dividends, etc. And so a vicious cycle of diminishing returns on capital and, as a result, less productive investment (and more hoarding)—at a time when technology requires more and more capital per worker—would invite more government intervention, even heavier burdens on capital, and so on. The result has been a form of "creeping" socialism which nobody really wants, but which seems "unavoidable."

In America this has not happened —so far. Although capital's share in the economic pie may have become smaller, the pie itself has become so big that capital, like everyone else, is eating more pie

today than it was eighty years ago. But there are some economists who fear that we, too, may be heading towards "creeping" socialism, with government intervening to supply the capital that private enterprise either cannot or will not (because it is unprofitable) supply. And if that ever happens, economic progress (accumulation of wealth), or economic change (wider distribution of that wealth), or both, would end.

MOST students of the American system refuse to take such a gloomy view of the situation. As long as our national productivity keeps increasing, and our per capita income keeps expanding as it has in the past, there is no insurmountable economic problem. The problem, as this group sees it, is political and social. On the one hand, further Government taxation of capital earnings must, they believe, be kept to a strict minimum if private capital is to provide the jobs our growing population will need. This is partly a political and partly an international problem of war and peace. Even more important, labor, and that includes all of us who derive our income from work, will have to provide industry with a growing proportion of the capital needed for expansion. If labor can be persuaded to invest a portion of its growing share of the economic pie in industry — a trend that is already a good deal more widespread than most of us realize—it will be helping to supply the capital we need in order to step up our productivity. For, as the fruits of our national wealth become more and more widely distributed, so must the base for capital investment.

This will not be easy, but then, as Dr. Fabricant's figures show, our tremendous economic progress was not achieved by sitting down A free society is not an easy one to maintain, but as we are reminded by Dr. Fabricant, neither is it dull. ■

Bishop Wright Was Wrong

BACK IN PIONEER DAYS an Eastern bishop visited a small Western college. Discussion got around to one of those "Whither are we drifting" subjects and the clergyman expressed the opinion that the millenium was at hand because every possible invention had been completed.

The college president disagreed. "Someday," he said, "men will fly like birds."

"For that statement," replied the bishop, "you may roast in Gehenna. Flight is something reserved for the angels."

The bishop's name was Wright. He had two small sons at home —Orville and Wilbur.

There is a system of financial dams which increases or holds back the number of dollar bills and coins in circulation

What Makes the Money-go-round?

FOR SOME MONTHS NOW the Administration's one-time "hard money" policy has been going soft. That is, the Treasury Department and the Federal Reserve System have been acting to bring about a lowering of interest rates on credit.

Within and without the granite lairs of financiers, the revised policy's intended effect of quickening lending and general business activity is pretty well understood. Not so well known outside the banking community, however, is the impact on the amount of money *in pocket*. People have been asking: How does the soft money policy affect the bills and coins in circulation?

While on the face of it this sort of question could be given an off-the-cuff, obvious reply, it has broad implications. To answer leads to a discussion of the whole pattern by which currency ebbs and flows, and—particularly at this time—to seasonal and cyclical changes due to overtake us.

Throughout the country, the total amount of "hand-to-hand" money in circulation changes all the time. It goes up and down as business goes up and down, depending on a variety of factors and forces at work. It is, in fact, an essential requirement of our monetary system that this supply have elasticity, the ability to change with the needs of the economy.

The amount of bills and coins in circulation must be adjusted to meet seasonal variations in demand. These occur in a fairly uniform pattern within each year, and from year to year. The need of seasonal elasticity exists mainly because of the expansion and contraction of, first, industrial payrolls, and, second, retail trade.

As seasonal business activity expands and the size of payrolls increases, the amount of currency in circulation rises as wage-earners use their money to buy goods

and pay off debts. Even the day when a sizable payroll is distributed in a community makes a difference in the amount of hand-to-hand money.

When seasonal business activity declines, as it has been doing lately, in summer, there is less currency going the rounds because workers have less to spend. As employment picks up seasonally within the next few weeks, the supply will rise.

In retail trade, following the present summer lull, there will be a resurgence of consumer buying in September, after Labor Day. As 35,000,000 or so children hasten back to school and their parents descend upon clothing and shoe stores, cash registers will rack up bill-and-coin sales running into hundreds of millions of dollars.

During the Christmas shopping rush there will again be another, sharper, rise in the amount of money in circulation. Afterward there will be an equally steep drop. The currency supply behaves in a similar fashion before and after every major holiday. Even in the course of a single week there is usually more money in circulation on the busy shopping days of Thursday, Friday and Saturday.

BUT HOW does the money supply *get* the elasticity to meet all these variations in demand? The mechanics of issuing bank notes are such that the supply in circulation can be changed very quickly. They work with a flexibility arrived at through a type of cooperation between business and Government built up over many years.

During the brisk shopping spell expected after Labor Day, the banks will feel an increased need for currency in several ways. Merchants will draw larger sums to make change, customers will withhold more of their wages from depositing, and many people will draw on their accounts to meet buying needs. The supply of liquid reserves in bank vaults will thus be reduced. The banks will turn to the Federal Reserve banks for shipments of new bills.

IN ORDER to be able to ship on short notice, each of the country's twelve Federal Reserve banks keeps quantities of bank notes ready for issue. When these run out, a bank turns some of its non-cash assets over to the Federal Reserve agent, and he releases an additional batch of notes. When the agency's supply of bank notes runs low, he in turn requests the Board of Governors of the Federal Reserve System in Washington to order a new shipment from the Treasury Department.

The Treasury Department then throws the switch that prints

more bills and molds more coins. The Bureau of Printing and Engraving and the three U. S. Mints space out their own operations fairly evenly by storing quantities of their standardized product against demand. (They do not worry about its getting stale or going out of style.)

Just as the public, by drawing money from the banks, decides when the quantity of bank notes in circulation will be expanded, so it decides upon contraction — by returning "surplus" money. A heavy return flow to the banks always occurs, for instance, after the Labor Day, Christmas and Easter holidays.

When after next month's rush the banks find they have more "vault cash" than usual, most of them will send the excess to the Federal Reserve banks to build up their accounts. The Federal Reserve banks will either hold the notes or turn them over to the Federal Reserve agent, in exchange for the interest-earning non-cash assets they had surrendered during the shopping spurt. Either way the notes go out of circulation. The money-go-round will resume with the pre-Christmas shopping binge.

The answer to how a soft money policy affects currency in circulation is, of course, that it increases the supply—that is, if the policy works as intended.

THE Federal Reserve Bank of Chicago estimates the supply of currency passing from hand to hand over the span of current months, in $20 bills and less, at about $14,000,000,000. This averages out to $120 for every citizen over fourteen.

To double back to the theory behind it all, the process begins with a relaxation of the rules applying to bank reserves. These rules fix the amounts in bills and coins and other liquid assets which the banks must hold in proportion to the amount of credit they extend to borrowers.

The intention is that upon being allowed to decrease reserves, the banks will lower rates of interest, ease requirements and seek new outlets for loans. In doing this, the banks will not only reach beyond the companies and individuals they are already serving, but they will encourage those who wish to expand activities already begun. The general effect is to increase the amount of money in circulation.

As new borrowers themselves take out money for day-to-day use, as employees cash checks and as retail businesses of all kinds draw to meet rising community needs, banks obtain and give out currency at ever-increasing rates.

The effect of the money policy in force spreads with varying speed and impact geographically.

Differences in dominant types of industry and in periods of peak tempo account for this, mainly. United States currency is distributed by the twelve Federal Reserve districts separately from their respective headquarters — New York, Boston, Cleveland, Chicago, Minneapolis, San Francisco, Kansas City, Dallas, St. Louis, Atlanta, Richmond, Philadelphia —and from branch banks within districts.

To the extent that the easing-up of credit stimulates business activity nationally, the level of in-pocket money rises nationally. In the next two months or so this relationship will take on especially keen significance. In these two months, clear-cut indications of an economic upturn will be watched for. The timing and the degree of emphasis of the soft money policy will be tested.

Will the policy be carried out in such a way as to tie in well with the seasonal spurt in buying? Will it help to accelerate and lift the spurt to the status of a prolonged condition—to a higher level of consumer purchasing across the nation?

Will the soft money policy, in this way, help to get the results that are of the most basic importance if the nation's economy is to shake off the last clutches of "readjustment" and settle into a new surge of healthy growth?

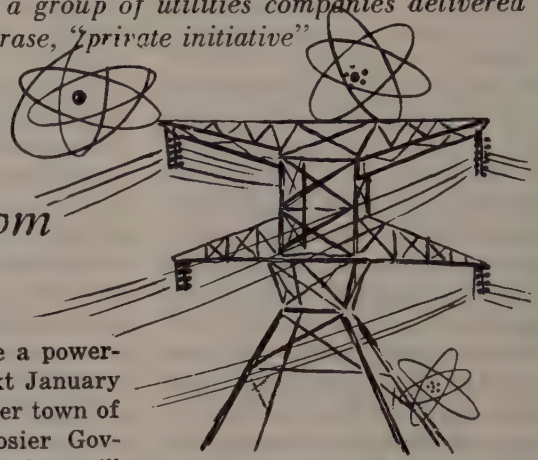
How well the soft money policy meshes with seasonal pickups in buying and the flow of currency is, of course, just one criterion of its usefulness and of the skill with which it is being applied. And policy having to do with the nation's money supply—both credit and currency—is just one of the factors that will have an effect on the upturn everyone is looking for. But as far as popular interest alone is concerned, however, the importance of monetary policy no doubt will continue to grow—and possibly with a sharp flick upward soon.

For, when we attain a satisfactory new inclined plane of production, employment and consumption, the question of the *buying power* of the dollar will again rise to top notice.

While economic activity was declining in the first half of 1954, the accompanying mild deflationary trend stabilized prices and the value of the dollar. With new growth, the opposite sort of pressure will set in. The alertness and wisdom of the Administration, working through the Treasury Department and the Federal Reserve System, will be tried in the timing and emphasis with which it applies a new hard money policy, restricting the use of credit and the flow of currency from printing plant to banks to pockets and back again. ■

When Uncle Sam called for more electric power to run his new atomic energy plants, a group of utilities companies delivered by living up to the phrase, "private initiative"

Power for The Atom



by Charles W. White

THERE WILL BE quite a power-house clambake next January in the historic Ohio River town of Madison, Indiana. Hoosier Governor George Craig doubtless will be there, along with top military brass and high officials of the U. S. Atomic Energy Commission. Philip Sporn, baldish little engineering genius who is president of the American Gas & Electric Company probably will get the privilege of throwing the switch. The $175,000,000 Clifty Creek steam-generating plant is, in a way, his king-sized baby.

It will be more than a mere plant dedication, however. Uncle Sam's vast atomic energy program will be involved, and so will every American citizen—the whole world, for that matter, not excluding the gang in Moscow.

Sporn's switch will activate the first 200,000 kilowatt capacity unit of a plant which will be ready with 1,200,000 kilowatt capacity in June, 1956. (That is roughly comparable to the horsepower kick of about 11,000 automobiles.) Clifty Creek at Madison will tie in with another American Gas & Electric-sponsored power plant, Kyger Creek at Cheshire, just north of Gallipolis, Ohio, with 1,000,000 kilowatt capacity. Both will serve the AEC's gas diffusion plant at Portsmouth, Ohio, estimated to cost more than a billion dollars. They will be able to tie in with other huge power plants in the atomic energy region from Paducah to Pittsburgh for what probably will be the largest power concentration in any comparable area in the world. Moreover, after the AEC's needs are served, there will be power left over for industries of the booming Ohio Valley.

But apart from the big figures

and statistics, what else, if anything, is all this going to mean? There are some unique economic, political and sociological angles—some of historic importance.

Economically speaking, we have here a remarkable *partnership* between Government and privately owned industry to accomplish objectives vital to both. Mr. Sporn's switch, remember, will send privately manufactured power over company lines to the Commission's vast publicly owned A-bomb plants. It may be noted, too, that the AEC will be drawing on public power resources, such as the Tennessee Valley Authority's big Shawnee plant serving the Paducah U-235 plant. Seven TVA power plants in the atomic energy region will add more than 5,000,000 steam-generated kilowatt capacity, most of it in a few years.

"The total amount of TVA power to be used by the AEC will be 24,000,000,000 kilowatt-hours a year," an official TVA report states. Thus we shall have both public and private power working together.

For the most part, though, it is mainly a private enterprise project. Not long ago, Kenneth A. Dunbar, manager of AEC's Portsmouth area, announced that Ohio subcontractors alone had received more than $16,000,000 worth of contracts for the gas diffusion plant job, with Pennsylvania contractors getting even more. Construction of the Clifty Creek and Kyger Creek plants has been entirely financed by banks, insurance companies and Sporn's American Gas & Electric Company, with fifteen private power companies participating.

Along with all this, there is a tremendous factor of regional development. It is going on all the way from Pittsburgh to Cairo, Illinois, with Louisville, Kentucky, for example, claiming 750 new factories since 1952. Towns and cities along the Ohio River have been adjusting themselves to boom conditions in America's new atomic-electrical Ruhr. New schools have to be built, new sewers and water systems laid, and new houses built for workers. Where housing is concerned, much of this has been left to private enterprise; however, the AEC and Federal Housing Authority have worked together to provide homes for workers in A-bomb construction centers like Paducah and the Piketon-Portsmouth area.

Obviously, vast enterprises such as these require careful planning and enormous sums of capital. As an illustration, it is possible to concentrate on Philip Sporn's power projects in Indiana and

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Charles W. White, a resident of Muncie, Ind., reports regularly on business and Governmental developments for many leading magazines.

Ohio to see how it was done. A reassuring story of free enterprise is revealed.

Early in 1952, with evidence that Russia was rapidly gaining on us in the atomic power race, Uncle Sam decided to build another U-235 plant. The AEC began looking around for a location where vast amounts of required power would be available. It decided on the Ohio Valley, not only because of its power resources but in order to take advantage of the Valley's rich supplies of coal and minerals, chemical plants, steel factories, skilled labor, and water and river transport facilities. Actually, there wasn't enough power —it would take 1,800,000 kilowatts continuously to keep the diffusion plant going.

The Government did the indicated thing: in January, 1952, representatives of virtually all the private power companies in the Valley were invited to a top secret planning conference in Washington. When the Commission's people outlined their out-of-this-world requirements, involving annual consumption of about 15,000,000,000 kilowatt-hours at low cost, some of the utility men threw up their hands in dismay. That was more than both Kentucky and Indiana were using per year, and almost two-thirds of the annual consumption of the highly industrialized Ohio. Besides, some private power managements were wary of any such gamble with the Government. Nevertheless, the majority answer of the Ohio Valley utility industry was, "We can do the job."

On May 12, 1952, fifteen private electric companies made their proposal to the Government. They would form a new corporation to take over the assignment, building the plants and lines needed. AEC then announced its choice of the Piketon site along the Scioto River near Portsmouth; and with the power load center thus pinpointed, Sporn's American Gas & Electric Company took the lead in getting the companies together and finding money to finance the big deal.

On October 1, Ohio Valley Electric Corporation (OVEC) was organized. Two weeks later, OVEC and AEC signed their historic 25-year power agreement, the biggest single power contract ever executed.

Meantime, Sporn and his associates were busy arranging the financing of this huge deal. They figured it at around $400,000,000, including $175,000,000 for Clifty and $145,000,000 for Kyger Creek, plus transmission lines. Another $40,000,000 was added for working capital—for instance, $10,000,000 for coal in continual reserve storage.

How was the $440,000,000 to be raised? Sporn's answer sounds like a banker's dream. A group of twenty-nine insurance companies, seven pension funds and two savings banks bought $360,000,000 worth of three and three-quarter percent mortgage and other collateral bonds, due January 1, 1982. Then a group of twelve banks and two pension funds bought $60,000,000 worth of four percent notes, First National Bank of New York acting as agent.

That took care of $420,000,000. The remaining $20,000,000 was put up by the fifteen utility companies who got OVEC capital stock in return. (Three of the OVEC companies are subsidiaries of Sporn's American Gas.) Result: the enormous job is almost entirely financed by low-interest debt capital. Big U. S. investors were willing to take a chance on Uncle Sam's promise to use a definite amount of power, the year around, in one centralized area. And as a curious side-dividend on atomic power, every community in the Pittsburgh - to - Cairo region stands to benefit.

In double - quick - time, all this Buck Rogers dreaming was translated into terms of supplies moving down the river and men at work. Not long ago, Earle Snodgrass, Clifty Creek superintendent who has built seventeen plants for American Gas, told a reporter he was pouring about 800 cubic yards of concrete a day. Some 3,000 men were at work on the 800-acre Clifty site along the Ohio River west of Madison this summer. Men on the giant barges up and down the Ohio can see the three powerhouse stacks for miles —each will be 680 feet high, or about a hundred feet higher than the Washington Monument. The Clifty Creek plant will use more than 18,000 tons of structural steel alone, and once in operation it will consume more than 4,000,000 tons of coal annually, all of it delivered from Kentucky, Indiana and West Virginia by river barges

As for Philip Sporn, recognized in the utility industry as the guiding mind behind all this, he will probably enjoy himself greatly on the big day when Clifty Creek goes on line next January.

When Sporn pulls the beribboned switch, he may think of a statement he made several years ago at a Chamber of Commerce meeting in Huntington, West Virginia:

"The progress of our present civilization, the advance that is being made in lifting the age-old burdens of heavy toil from the backs of men, can be traced almost entirely by the curve showing the growth availability of power for each worker." ■

The people of Utica had the will to do something constructive about mass unemployment—and accomplished a miracle of revival through their initiative

When a City Begins to Die

by Ellis Haller

One morning in the fall of 1952, leading businessmen-employers of Utica, an industrial community of New York's historic Mohawk Valley, opened copies of an unusual "blanket" letter. It read:

"If a fire had burned the homes of 3,000 Uticans, you and I and everyone else in Utica would pitch in to do everything to help the individuals affected. During the past few months a catastrophe has hit many Utica families, which in many ways is more serious than a 3,000-home fire. More than that number of textile workers have been separated from their jobs. Most of them will never go back to their old jobs because the plants are closed."

The letter was signed by Richard H. Balch, head of a fishing tackle company and chairman of the Community Action Committee formed to meet the emergency described.

And a crisis it was. A number of textile mills, the city's mainstays for generations, were moving South to take advantage of lower labor and transportation costs, and shifting markets. Men and women who had worked all their lives at one occupation suddenly found it had been taken away from them, for good.

Soon, however, the whole bleak picture was reversed. Fears that the city would become an industrial "ghost town" vanished as the former textile workers tackled new and totally different jobs, using skills they never knew they possessed.

Anthony Cappelli, who had operated a dyeing machine in a cotton textile plant, took a course in running a lathe. Before long he was at work in the new Bendix plant, turning out aircraft parts. Today, he is a foreman. "I'm better off than I'd ever have been staying at my old job," he says. "The day that mill closed was a lucky one for me, although I didn't know it at the time."

The story of how the new skills were uncovered, adapted and put to use is a meaningful one for every industrial community, old

or new. How did Utica do it? The answer lies in cooperation—cooperation in a combined aptitude-testing and adult-education effort. It was a program born out of desperation and carried out under emergency conditions; but it worked—and it is still working.

Basically, the project accomplished two things: it helped fit unemployed workers into jobs in existing industries outside the textile field; and it attracted new plants by assuring employers a pool of skilled labor, literally "trained to order."

Utica's crisis didn't appear all at once. The southward drift of textile mills had started long before World War II. But relocation became more and more pronounced during the late 1940s and early 1950s as competition sharpened and manufacturing costs spiraled upward.

By the spring of 1952, more than 6,000 Uticans were drawing unemployment compensation—out of a normal work force of 55,000. Many more were on the city's welfare rolls. Moreover, these were not folks accustomed to receiving handouts. Many of them owned their own homes. They were eager for work, but spinning and weaving were the only trades they knew. The few textile plants remaining in the city simply could not take on more hands.

Ellis Haller, copy editor and roving business writer for The Wall Street Journal, weaves the Utica story from on-the-spot interviews.

As the situation worsened, Utica was labeled a "distressed area" by the Federal Government. That was when a group of citizens got together to form the twenty-two member Community Action Committee. It included a true cross-section of the city's businessmen: Jim Capps, president of a men's wear store; J. David Hogue, a newspaper publisher; Charles Hall, a bank president; Anthony Giglio, district business agent of the American Federation of Labor International Association of Machinists; and the chairman, Richard H. Balch.

The Committee drew up a three-point program: (1) find out what non-textile jobs were available in and near the city; (2) give idle workers aptitude tests to determine their special skills and abilities; and (3) train these workers so that their skills could be adapted to existing job vacancies.

As the first step in carrying out its program, the Committee consulted the state employment service. Surveys showed that engineers and other technicians were badly needed but were practically nonexistent in the area. Several firms were short of machine-tool operators, metal workers and electronics assemblers.

The newer plants had surveyed the employment picture before building in Utica. They knew there was an over-all surplus of available labor—a major reason why they had decided to locate in the area. But they were not sure how rapidly these people could be integrated into their work forces, nor how many skilled employees might have to be brought over from other plants to initiate a sound training program. The big question was: Could the displaced textile workers be trained quickly, and on a broad scale, to fit into the jobs waiting for them?

THE EMPLOYMENT service got busy with a mass testing program, offering aptitude tests free to all comers. The tests measured *present* skill or knowledge in an occupation; but more important, they gauged with remarkable accuracy how soon and how well a beginner would develop skill in any given *new* occupation.

Unemployed Uticans flocked to take the tests. The results showed they had aptitudes for skills in the machine trades, metal trades, the electrical equipment industry, manufacture of aircraft and engine parts, radio manufacturing, the construction industry and several other fields.

The tests convinced the businessmen-employers that the former textile workers possessed "convertible" skills. Now the next job was to do the converting.

NIGHT vocation courses were set up in the public school system, and special classes were provided in the Utica College of Syracuse University and the Mohawk Valley Technical Institute. Courses offered included machine-tool operation, precision measurement, blueprint reading, electronics, mechanical drawing and typing. General Electric Company, while building a new military electronics plant, ran its own school in a shut-down mill, training workers in specialized electronics techniques.

The Community Action Committee, meanwhile, asked for and received the fullest cooperation from the rest of the town. Balch's letter set the tone. Employers, large and small, surveyed their plants and shops for openings; doctors offered free medical examinations to job applicants; a committee of Rotary Club members arranged loans to cover a $300 tuition fee for a 42-week course in electronics, the only part of the training program for which a charge was made; local labor union leaders urged members to register for courses; and the state labor department dovetailed its apprentice training program with the re-employment campaign.

Before all this could be suc-

cessful, however, it was necessary to convince the former textile workers that they were not too far along in years to take advantage of the special courses and qualify for new jobs. To do this the training program was publicized over the local radio and television stations, and in the newspapers. The publicity campaign grew around a fictional cartoon character, "Johnny Get-Ahead."

Johnny pointed out the advantages available, described courses and told how to apply: "The chances are here, but it's up to you and me to dig them out."

Uticans have heeded the advice of "Johnny Get-Ahead." In the two years the program has been in progress—it is still going on, since the unemployment crisis has not passed—more than 1,300 men and women have taken technical training courses to fit themselves for new and better jobs. And the effect has been far broader than the figures suggest. The metal working and electronics plants had bottlenecks in the lack of technically-trained employees. But once these were broken by hiring the specially-trained, the factories could hire hundreds of less-skilled workers for parts assembly and bench jobs.

"Our experience proves one thing," declares Charles Finch, manager of the state employment service office in Utica. "A recovery program of this sort has to spring from the grass roots. The real punch comes when everyone in the community lends a hand."

That is what happened in Utica. State officials helped map the training program, and the Federal Government funneled a few defense contracts to the textile mills when the city got the "distressed" tag. But most of the credit belongs with the townspeople.

Utica's job readjustments have helped others besides those who went back to school. It has shot new vigor into the whole community. Average weekly wages, at about $69.25, are 30 percent higher than in 1949; the statewide average rose just 18 percent in the same period. Bank deposits and retail sales are up. Businessmen are more optimistic. A hospital building program was oversubscribed by $1,000,000, and a new public school expansion program got enthusiastic support from the voters.

The most important effect has been the realization by Uticans that education does not stop with graduation from school. Lights are still burning these nights in scores of classrooms, bright evidence that opportunity is waiting for those who realize it is never too late to learn—whether an individual or an entire community is involved. ■

All he wanted was solvent poultry farmers who could pay for his feed. But one thing led to another, and Chessher ended up as a processor and distributor of frozen chicken—new style

Chessher's Deep Freeze Was a Hot Idea

by Ruel McDaniel

NO ONE has ever seen or bred a chicken which was all drumsticks. Yet modern merchandising genius has made it possible to buy poultry which is just that—all drumsticks, or all wings, for that matter, if that is the way you like your chicken. The innovation of freezing and packaging individual cuts rather than an entire chicken has made cash registers ring for the nation's poultry packers.

This technique in poultry merchandising achieves two important prerequisites to wider distribution of food products. First, it satisfies consumer demand for processed foods that save marketing and preparation time and minimize food waste. Second, it meets the need for delivering food to long-range markets, while cutting possible loss from food spoilage. Frozen individual cuts make chicken not only economical for consumers, but safe for transport across roads and oceans.

L. H. Chessher of Nixon, Texas, is a leader in the new look in poultry merchandising. Today over 50 percent of the Chessher annual production of 2,000,000 broilers is sold in the form of individual cuts—sold from the frozen food cabinets of retailers in every state west of the Mississippi and from hundreds of stores in Hawaii.

But Chessher did not start his merchandising adventures armed with startling ideas and a modern processing and freezing plant. His success story began with boyhood jobs on the Nixon chicken farms; it was a slow growth which eventually developed into the present-day business which boasts Chessher-owned and operated hatcheries, delivery lines and merchandising displays.

In 1940, Chessher used his savings to open a feed store in Nixon. About this beginning he muses, "It would sound nice to say that I had a vision of a great integrated poultry business when I opened that little feed store, but it would be untrue." As a novice he learned that to sell his feed, somebody had to sell chicks. The chicken farmers, who bought feed from him on credit, made their first cash payments to the hatcheries which held first liens on flocks. So Chessher opened his own hatchery, but this did not solve his credit problems. His customer's flocks matured at the same time, and markets became glutted. Chessher had to come to the rescue with a secondhand truck. He drove day and night to dispose of the surplus in New Orleans and other "rice belt" communities. This improvising saved the market—and Chessher's feed and hatchery business.

But this hatching-to-handling operation drained Chessher's own capital and credit. The white leghorns raised around Nixon required feed for twelve weeks before they were marketable, and in the last three weeks the chickens ate more than in all the preceding weeks. This might have been good for Chessher's feed enterprise, but it was bad for the whole economy of the chicken-raising business. If Chessher could find a breed of fowl that would lop the top off the feeding cycle, costs would fall. From chicken eggs of the North Carolina mountain breeds he developed a type of White Rock chicken which was marketable in eight to nine weeks, and at maturity was larger than the leghorn. The financial credit strains now reduced, Chessher needed more markets to take the rising production of Nixon poultrymen.

In hopes of doing for chicken what Clarence Birdseye did for green peas, Chessher added a small-scale freezing plant to his business. As it turned out, he didn't have to worry about selling his produce. When World War II came along, the Army took his entire production of frozen broilers. In fact, it almost took Chessher as well. He was forced to sell his plant. But when he failed the final Army physical examination, Chessher returned to Nixon and his live poultry business.

With a discerning eye, Chessher saw the future for frozen poultry in terms of larger demand and distribution. The proceeds of the sale of his old plant capitalized the construction of the freezing and processing plant he has today, employing 125 of Nixon's citi-

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zenry. Notice was given that the market could expect chicken in a new dress.

To sell chicken in the frozen food market, you had to sell quality chicken. Even in its infant days, the frozen food industry prided and sold itself on high marketing standards. Chessher geared his production toward this goal. Roy Henider of Minnesota Mining and Manufacturing Co. was hired to supervise the broiler-raisers; and to put together and direct a staff of specialists to show the North Carolina farmers how to produce high quality eggs.

With his product developed and the market ready to buy it, Chessher knew he needed a link between the two. "We had enough poultry knowledge around already," Chessher explains. "What we needed was a man who knew how to sell." James Freed, who had been a successful merchandising manager for Sears Roebuck & Co., got the job. From there on business swung into high gear.

DISTRIBUTION is made solely through frozen food distributors to retailers. Freed learned that most frozen food purchases are the result of point-of-sale reminders and that the greatest single bottleneck in distribution is a shortage of freezer cabinet space in retail stores. To solve these problems simultaneously, the company designed its own display cabinet. Made of heavy collapsible cardboard, this unit holds 200 pounds of chicken under dry ice refrigeration. Freed covers the sales territories and instructs distributors on the use of the cabinet. Its primary function is to attract the heavy, end-of-the-week shoppers.

Chessher assures distributors of the delivery of a quality product which they will be proud to pass on to retailers and customers. Every order, except those going to Hawaii, rides in Chessher refrigerated trucks from the plant door to the platform of the distributor. "It's the only way we can be sure that merchandise reaches the consumer in the same condition it leaves our plant," Chessher points out. Other incentives are offered to distributors' salesmen by timing local advertising to fall in with sales contests. The company furnishes free point-of-purchase advertising to salesmen who pass it on to retailers interested in volume sales.

And so Chessher's chickens get to market, and the market takes them. Next year he hopes to convert even more of his broiler production to marketing in individual frozen cuts—and this in the face of rising competition. Ample proof that all you need to hatch a profitable business is plenty of ingenuity and a will to work. ■

From the Bookshelf

Another plea for a system of convertibility of currencies as a measure to bolster the economies of friendly nations during a period of protracted "cold war"

Building the Economic Defenses of the West

Reviewed by Willard L. Thorp

FOREIGN EXCHANGE IN THE POSTWAR WORLD, by Raymond F. Mikesell. 647 pp. New York: Twentieth Century Fund. $5.00.

IN AN ALL-OUT WAR, the lives and livelihood of us all would be affected by the supreme effort to win. Nor would it be just a matter of national organization. For full effectiveness, the resources of all our allies would have to be included in the same plan, as in World War II.

But suppose the world manages to escape a hot war, while the cold war continues. This would mean that military strength, while remaining important, would not be used decisively. Then what would be involved?

Professor Raymond Mikesell in his book *Foreign Exchange in the Postwar World,* a research report of the Twentieth Century Fund, answers this question by stating that "the outcome of a generation of continued cold war will be determined by the relative rates of economic growth in the free and the Soviet areas of the world." Certainly, if one excludes a military decision, a cold war would be a contest in which economic performance would be very important, although one cannot undervalue performances in the fields of civil liberties and justice.

But in this race for economic growth, what role does foreign exchange play?

The Soviet economic machine operates under much the same scheme of controls in a cold war as in a hot war. It is directed by

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a unified plan of action which covers not only the Soviet Union but the satellites. Production and trade are controlled under centralized planning, and the conditions under which trade takes place are more or less dictated by Moscow.

The free world, however, is organized under no such principle of political centralization or domination. Professor Mikesell suggests that "the principal coordinating force available to the free world economy is the operation of unfettered markets for goods and capital." In other words, he suggests utilizing the same sort of organizing principle which has made it possible for the United States to achieve the highest standard of living in the world.

But when we consider what has made American economic progress possible, we recognize that two of the most important facets have been the lack of intra-state barriers to the purchase and sale of goods, and a means of payment acceptable to everybody. Goods made in Maine can be sold in California, and payment can be made in dollars which are good in all forty-eight states. For the most part, production and trade take place with only the forces of the market place to guide them.

In *Foreign Exchange in the Postwar World*, Professor Mikesell looks at the free world postwar picture and sees neither a centralized control plan nor the operation of free market forces. He finds, instead, "a monstrously complex network of trade and payments arrangements."

This report is a detailed examination of the recent record of international payments, covering both the particular problems of individual countries and monetary areas, and the machinery and devices used to settle these problems. Professor Mikesell notes that some nations solve these problems by restricting trade directly through quota limitations on imports, while others exercise control over the allocations and use of foreign currencies. It is his conclusion that "trade discrimination and exchange restrictions on current transactions are not only economically harmful, but they are responsible for a misallocation of resources which the free world can ill afford, if it is to defend itself against internal and external aggression."

Thus, restrictions on the convertibility of currency are closely related with restrictions on the volume of trade. Professor Mikesell makes it clear that the international monetary goal should be convertibility, whereby individuals and nations can exchange one foreign currency for another

without restrictions. But the basic problem is not merely one of exchanging currencies. It also involves the degree of freedom with which they can be used. For example, it would be useless to say that any Brazilian who held British pounds could readily exchange them in London for dollars—if the British authorities limited the sale of Brazilian goods to England so that no Brazilian could get pounds to convert in the first place. Professor Mikesell makes it clear that the goal he seeks is not only convertibility but also the expansion of trade.

BUT THESE goals are not easily achieved. A glance at some of the postwar trade developments will show us why. Immediately after the war, serious shortages of goods and the loss of previous sources of foreign earning put a terrific strain on the payments machinery of the countries that had been devastated. American aid eased the situation considerably, and the remaining imbalance was offset by trade or exchange restrictions. In order to expand trade, countries entered into bilateral trade agreements which grew into trade networks. These agreements, however, were really barter arrangements which limited trade to what each country wanted from another. Therefore, there was no possibility of using a surplus earned in one country to meet a deficit in another.

TWO wider settlement areas, the European Payments Union and the Sterling Area, embraced groups of nations. Through these media members could balance out their trade accounts with all other members at once. But even within these areas, some countries got into difficulty because their citizens purchased more goods from abroad than their foreign earnings would justify.

Furthermore, the unequal inflationary tendencies in many countries in recent years have made the problem of international balance more difficult. Suppose prices rise in Country A more than in Country B. Then there will be a tendency for people in A to want to buy from B at the lower prices, and for people in B to be less interested in buying from A at inflated prices. Therefore, A finds that it must make larger payments to B while selling less to it. If A has large convertible reserves, it can use them, at least for a while. But the more usual procedure has been for A to restrict what can be bought from B in an effort to balance trade, while perhaps even cutting trade volume to less than what it was in the first place.

But this problem of imbalance, and hence restriction of trade, is

not merely one of inflation existing in some nations. Professor Mikesell points out that one of the basic difficulties is that the demand for goods from the dollar area seems to be greater than the purchasing power which non-dollar countries can command; they simply do not sell enough goods and services to the dollar area. Therefore, unless the United States increases its foreign purchases, the achievement of balance by other countries depends on changes in the present patterns of production and trade, on developing new sources for goods, and in reducing the present dependence of the rest of the world on the United States for raw materials, foodstuffs, and capital equipment. Even with progress along these lines, United States participation would still be essential to a freer system of trade and payments.

PROFESSOR Mikesell, even after pointing up all the problems and difficulties, remains optimistic about the future of foreign exchange. He feels that it is possible to escape from the present disorderly situation and that this would not require trade and exchange controls of the wartime type.

Foreign Exchange in the Postwar World does cite the considerable progress which has already been made to bring international economic relations into balance. But Professor Mikesell does not attempt in this book to lay out a detailed program for the restoration of convertibility. In fact, he argues against too rapid an attempt to reach this goal, since no country can remove restrictions in reality except as its trade and payments approach balance (allowing for the reserves a country may bring to bear and the aid or credit available to it). Convertibility is likely to succeed, in Professor Mikesell's opinion, if it is undertaken gradually through the cooperative efforts of Britain and the leading Western European countries. The assistance of the United States toward this goal would be crucial and would have to include liberalization of U. S. trade policies and appropriate financial support.

A more liberal and generous foreign policy by the United States would best correspond to our objective in the cold war. These objectives, in addition to building up military strength, are to build economic strength throughout the free world.

Foreign Exchange in the Postwar World is bound in gold cloth. Perhaps this symbolizes the importance of convertibility in carrying on the work of coordinating the world's production and trade, a job once done by the gold standard. ■

(Cont'd from p. 2)

Wage-price hikes in steel will probably set the pattern in other basic industries. Unwillingness on the part of buyers to accept higher prices and the pile-up of inventories may put a damper on inflation, but recent statements by purchasing agents appear to be pointing the other way.

Government spending for fiscal 1954-55 will probably be some $4 billion below last year, but many business analysts believe that the adjustment will be much easier now that business has had time to plan for less Federal buying. Besides, the military will probably step up buying of durables while the Government's expanded stockpile program for lead, zinc, titanium and other strategic metals could send commodity prices into an inflationary spin.

So far, these signs of inflation are only possibilities. The Government's Wholesale Price Index, which had shown remarkable stability this spring, finally declined in June as a result of a sharp fall in farm prices. Food bills, which jumped by 0.8% in May, are headed slightly downwards, and the outlook is for cheaper meats (particularly pork) and more plentiful and probably cheaper fruit (particularly peaches, plums and apples). Prices of non-food and farm commodities, however, will probably go up in August. Besides, prices don't tell the whole story when there is such a lot of idle money lying around.

The recent flare-up in Guatemala is going to have important repercussions on our trade relations with the rest of South America—not all of them good for us:

U.S. exports to Latin America have been rising in recent months, but European competition is getting

hotter, and many U.S. businessmen fear that Latin resentment at U.S. "interference" in Guatemala may lead to boycotts of American goods. Actually, our relations with Ecuador, Peru, Uraguay, Venezuela, which find their markets in the U.S., are cordial. It is in countries like Bolivia, Panama and Mexico that anti-Americanism, fanned by left-wing and super-nationalist agitators, is so strong. Reason: these countries resent their dependence on U.S. capital.

Economic aid is being pushed to counter this trend by encouraging native industries and raising standards of living. Loans are being expanded by some $500 million and the Export-Import Banks will use some $1 billion of uncommitted funds for hydro-electric power projects, highways, etc.

The Department of Better Mousetraps: a wheel chair that climbs curbs . . . gas stoves whose top burners can be set to turn off automatically . . . an automatic alarm for parents worried about leaving their children unattended around swimming pools. The alarm starts ringing as soon as anyone falls into the water. . . . a needle threader which, according to the maker, even a blind person can use . . . an automatic fish scaler . . . a home fire alarm that is automatically activated by a temperature above 140°F . . . a simple-to-fly family helicopter for $8,000 . . . capsule sodas. You just drop a tablet into a glass of cold water and the tablet turns into soda pop . . . . a new lightweight hoeing machine that glides across the planted fields on skis . . . and, finally, a new "kiss-proof" sauce which tastes like garlic but leaves no after-breath effect.